Who Needs to Pay Capital Gains Tax?

October 2020

Wealth taxes tend to be more popular than income tax, national insurance or VAT as the perception is that only the wealthy have to pay them, but is this really the case? Some readers may be surprised to learn that they have a potential capital gains tax liability and may want to take action to use up some of the reliefs and allowances which currently exist, ahead of any changes in the Spring Budget.

What is taxable?

Capital gains arise on the growth in value of certain assets such as shares, unit trusts, investment trusts, land, commercial property, chattels such as jewellery and antiques and residential property which is not a main residence. This growth is not taxed until the asset is disposed of by way of sale or gift.

Some assets are exempt, for example, chattels below £6,000, investments held in Individual Savings Accounts, Child Trust Funds, Pensions, Venture Capital Trusts and Enterprise Investment Schemes, Gilts, Investment Bonds and some Corporate Bonds. Residential property, which is the taxpayer's main residence, or has been within the last 9 months of ownership, is not taxed. Only one property may qualify and in the case of married couples and civil partners only one property per couple, regardless of ownership, once the 9-month grace period has expired.

How is the gain calculated?

The gain is the price realised for the asset, less the price paid and any capital spending to improve the asset, less the costs associated with the sale. For example, the sale of a buy to let property would take account of the difference between sale and purchase prices, less the cost of any improvements to the property ,not offset against income tax, and the cost of sale such as legal and agent fees.

Where more than one asset is disposed of in the same tax year, losses made may be offset against the gains, or if greater than the gains, carried forward to a later year. So for example, if a share portfolio contains some investments which have

grown and others which have lost money, if both are sold in the same tax year the losses can be offset against the gains so only the net gain is taxable. Losses may be carried forward but not back.

Allowances

Each UK resident taxpayer has an annual allowance for capital gains. In 2020/21 it is £12,300. Tax is only payable on realised net gains above this allowance. However, it can only be offset against gains realised in the year that a disposal of the asset is made. If no gains are realised in the year the allowance is effectively lost.

Married couples and civil partners can each utilise their allowances so that up to £24,600 of net gains could be realised before tax is payable, providing that they either owned the asset jointly or it was gifted from one spouse to the other prior to disposal. Cohabiting couples do not enjoy this exemption.

Disposals

In order to count as a disposal to use up any losses and the tax free allowances, the asset disposed of by way of gift or sale must not be bought back for a period of at least 30 days, or the disposal will not count and the original price of the asset will be the base price from which any future taxable gain is calculated.

Where the asset disposed of is then bought back within an Individual Savings Account (ISA) or pension, the disposal will be a taxable disposal against which any losses and the tax-free allowance (£12,300) can be offset. Any future growth on the asset will be tax exempt within the ISA or pension wrapper.

Tax rates

For most assets the tax rate payable on gains is either 10% or 20%, depending whether the taxpayer has taxable income below or above £50,000 when the gain is added to their income. For residential property these rates rise to 18% and 28%. With the Government committed to not increasing income tax, VAT or national insurance, the Spring Budget may see some changes to capital taxes and the Office of Tax Simplification is already reviewing these. Those with assets subject to capital gain tax may wish to consider using their allowances and reliefs sooner rather than later.

Kay Ingram
Public Policy & Communications Director
October 2020

The contents of this article are for information purposes only and do not constitute individual advice. All Information contained in this article is based on our current understanding of taxation, legislation and regulations in the current tax year. Any levels and bases of and reliefs from taxation are subject to change. Tax treatment is based on individual circumstances and may be subject to change in the future. Although endeavours have been made to provide accurate and timely information, we cannot guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future.